



AR35

Pitts Engineering Construction Limited

1977
ANNUAL
REPORT



Pipeline Construction, North Bay, Ontario

Pitts at a Glance

Activities of the Pitts Group of companies fall into three main categories: civil engineering construction, pipeline construction and, through a major investment in Standard Industries Limited, the construction material and supply business.

Civil Engineering Construction

Pitts is one of Canada's largest publicly owned civil engineering contractors. It specializes in large-scale energy developments, multilane highways, subways, bridges, dams, tunnels and marine construction. The company's work area extends across Canada from Newfoundland to British Columbia and includes the far north and arctic regions.

Working mainly, although not exclusively, for governments at all levels, the company usually bids on owner-designed projects, with tenders based on plans and specifications supplied by the client. Most work is contracted on a firm price basis. On occasion work is negotiated on a "cost plus incentive fee" basis.

Where warranted by project size, complexity or location, Pitts will enter into joint ventures, either as sponsor and manager, or as a participant. As of December 31, 1977, the company was participating in six joint ventures.

Pipeline Construction

Through Calgary-based Pitts Price Pipelines Ltd., (50.2% owned) and two wholly-owned Ontario-based subsidiaries, Cliffside Pipelayers Limited and McDace Limited, Pitts offers a full range of pipeline construction services. These comprise large diameter oil and gas pipeline facilities and station work, as well as small diameter distribution systems, including underground utility work, for gas and oil, hydro, telephone, cable television, water-mains, storm drains and sewers.

Standard Industries Limited

Pitts has a 33.3% equity interest in Standard Industries Ltd., one of Canada's largest construction material and supply businesses. With annual sales of \$91.6 million, Standard provides a significant contribution to Pitts' earnings.

Cover

McDace Limited, a Pitts subsidiary, working on 4 miles of 30" diameter gas pipeline for TransCanada PipeLines Limited at North Bay, Ontario.

Port aux Basques, Nfld. Underwater blasting for new ferry dock facilities





Pitts Engineering Construction Limited

and subsidiaries

Directors

WALLACE A. BARRIE, *P.Eng.*
ALLAN L. BEATTIE, *Q.C.*
EDWARD E. BEKHOR, *M.B.A.*
WILLIAM C. COLE, *P.Eng.*
SYDNEY C. COOPER, *P.Eng.*
JAMES D. JARRELL, *B.Comm.*
DONALD J. MCDONALD, *B.Comm.*
FRANK A. M. TREMAYNE, *Q.C.*

Officers

SYDNEY C. COOPER, *P.Eng.*
President and Chief Executive Officer
WALLACE A. BARRIE, *P.Eng.*
Executive Vice-President and General Manager
WILLIAM C. COLE, *P.Eng.*
Senior Vice-President
JAMES D. JARRELL, *B.Comm.*
Senior Vice-President
FRANK A. M. TREMAYNE, *Q.C.*
Secretary
HOWARD A. BRADLEY, *P.Eng.*
Vice-President and Chief Estimator
HARJIT S. DHILLON, *P.Eng.*
Vice-President
ALEXANDER R. DRUMMOND, *P.Eng.*
Vice-President and Chief Engineer
ALEXANDER R. MCDONALD, *P.Eng.*
Vice-President
NORMAN A. HARRISON, *C.G.A.*
Treasurer and Comptroller
ELVIN R. AUSTIN
President, Cliffside Pipelayers Limited
ROBERT F. C. MARRIOTT, *P.Eng.*
President, McDace Limited
GEORGE A. GRIFFITH
Assistant Treasurer
DENIS FLYNN
Assistant Vice-President

Registrars and Transfer Agents

NATIONAL TRUST COMPANY, LIMITED
Montreal, Toronto, Winnipeg, Calgary and Vancouver
CENTRAL AND EASTERN TRUST COMPANY
Halifax, Nova Scotia

Auditors

ERNST & ERNST
Toronto, Ontario

Bankers

THE ROYAL BANK OF CANADA
THE BANK OF NOVA SCOTIA

General Counsel

OSLER, HOSKIN & HARCOURT
Toronto, Ontario

Exchange Listings

THE TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

Principal Offices

PITTS, ONTARIO
30 Commercial Road, Toronto
PITTS, QUEBEC
4480 Cote de Liesse Road, Montreal
CLIFFSIDE
3660 Midland Avenue, Toronto
McDACE
611 Clarke Road, London
PITTS PRICE
214 Chinook Centre, Calgary

The Pitts Group of Companies

Pitts Engineering Construction Limited
C. A. Pitts General Contractor Limited
Pitts Quebec Limited
Pitts Engineering Construction Eastern Limited
Pitts Atlantic Construction Limited
Pitts Pacific Construction Limited
Drake Construction Co. Ltd.
Cliffside Pipelayers Limited
McDace Limited
Pitts Price Pipelines Ltd.



Aerial view of job site



Commencing top heading of diversion tunnel

Revelstoke, B.C.

A Pitts sponsored joint venture constructing the first phase of the Revelstoke Hydro Electric Power Development.

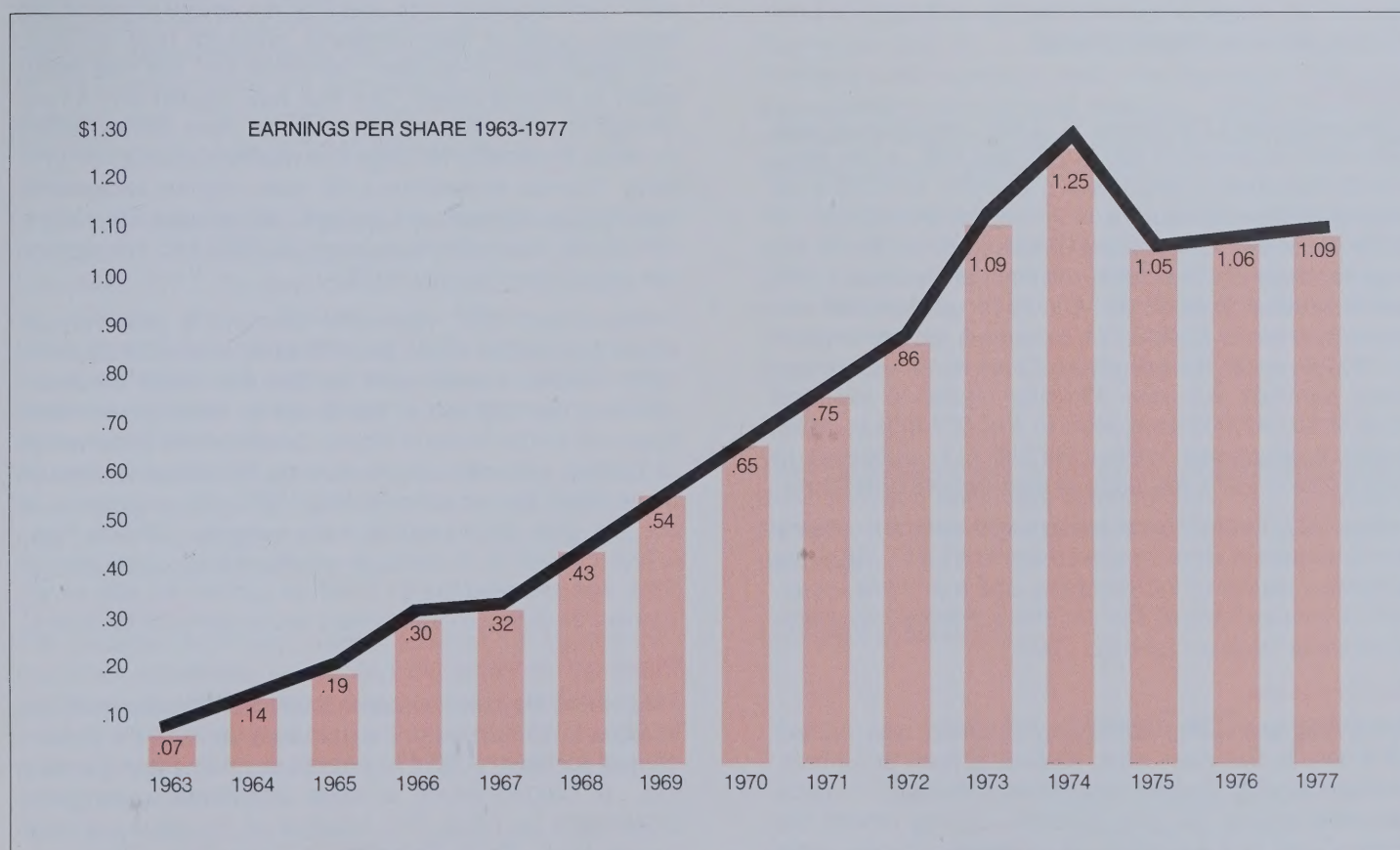
This \$35.4 million contract for B.C. Hydro calls for clearing, site preparation, road-work and the driving through rock of an 1,800 ft. long and 47 ft. finished diameter tunnel to divert the Columbia River.

Financial Highlights

	1977	1976	1975	1974	1973
Revenue	\$95,828,939	\$88,373,316**	\$87,332,120	\$85,032,258	\$65,026,605
Depreciation	3,224,677	2,701,629	2,670,714	2,684,071	2,437,497
Provision for taxes	2,714,802	2,516,067	2,606,175	3,882,023	4,048,499
Earnings before the following Earnings per share*	4,486,987 1.09	4,356,867 1.06	4,305,647 1.05	5,117,922 1.25	4,458,014 1.09
Extraordinary Items Earnings per share*	1,303,274 .32		470,690 .12		355,372 .09
Net Earnings	5,790,261	4,356,867	4,776,337	5,117,922	4,813,386
Working Capital	8,349,930	10,077,070	9,086,640	8,200,606	5,788,794
Dividends paid per share*	.32	.30	.30	.30	.20
Shareholders' Equity Equity per share	30,841,552 7.51	28,212,294 6.87	25,059,762 6.11	21,460,388 5.25	18,080,216 4.41
Shares outstanding	4,105,200	4,105,200	4,098,600	4,091,000	4,091,000
Market price—T.S.E. & M.S.E.	4¼—7	4¼—6½	5—8¾	5½—11¾	9—13

1971 Valuation Day Value \$7.065 per share

* Adjusted for all stock splits ** Restated





*W. A. Barrie, Executive Vice-President and
S. C. Cooper, President and Chief Executive Officer.*

To The Shareholders

The Canadian construction industry as a whole continued in a no-growth situation during 1977 which in certain geographical areas approached slump proportions. Better conditions existed in the engineering construction segment in which Pitts' activities are centered, although they were not sufficient to offset the effects of steadily growing costs of labour and material due to continuing inflation. This, and increased competition for available work resulted in lower profit margins and reduced business backlogs. Nevertheless, Pitts was able to secure a fair share of the 1977 market and to record a reasonable improvement in revenues and earnings over 1976. Management believes this is the result of the company's continued diversification into a broad range of civil engineering and pipeline construction activities across Canada.

Financial

In the year ended December 31, 1977, the value of work performed increased 8.4% to \$95,828,939, a company record, compared to \$88,373,316 for 1976, producing net earnings before extraordinary items, of \$4,486,987 or \$1.09 per share, compared to \$4,356,867 or \$1.06 per share for last year. This marks the company's second best year of earnings in its 36 year history. In addition, extraordinary income of \$1,303,274 increased net earnings to \$5,790,261 or \$1.41 per share. There were no extraordinary earnings last year. Working capital at year-end stood at \$8,349,930 compared to \$10,077,070 in 1976. Capital expenditures totalled \$6,705,111 compared to \$3,528,094 in 1976, exclusive of joint venture operations.

In May 1977, the Articles of Incorporation of the company were amended to allow for a decrease of \$1,847,340 in the authorized capital of the company and a pro rata repayment to shareholders of 45¢ per share. Payment to shareholders was made on June 22, 1977.

Year in Review

During the year, engineering construction was carried out at twenty-five main sites, extending from St. John's, Newfoundland to Revelstoke, British Columbia. Projects completed during the year included, among others, the Rideau Canal lock renovation at Joyceville, Ontario, work

at Toronto International Airport, dock reconstruction at Prescott, Ontario, harbour improvements at Port aux Basques, Newfoundland, an arterial expressway in St. John's, Newfoundland and a ferry dock at Baie Comeau, Quebec.

At year-end, Long Spruce Constructors, a Pitts sponsored joint venture, had substantially completed work on the Long Spruce Generating Station in Manitoba, a \$150 million contract. Work at the Limestone Generating Station, 14 miles down river from Long Spruce, will continue during 1978.

Reflecting a year-end upswing in business, from October 1, 1977 to the end of January 1978, Pitts was awarded or was low bidder and probable contractor on ten new contracts totalling \$30.2 million. Of these, the largest were the \$8.9 million contract from Ontario Hydro for the construction of a circulating water intake for the new Wesleyville Generating Station and a \$9.2 million contract for the extension of Islington Avenue in Toronto, which includes a six-lane 1,600 foot precast concrete bridge.

On August 14, 1977, the tug Kay Cole, the newest addition to the Pitts marine fleet, left Pictou, Nova Scotia towing the Pitts Olympic, (an eight cubic yard clamshell dredge) and a 700 cubic yard dump scow for the long voyage up the Atlantic coast of Labrador through the Hudson Strait and across Hudson Bay to Churchill, Manitoba. After travelling 18 days and 2,500 miles, the Kay Cole and her tow arrived in Churchill on September 2, 1977, ready to start work on a \$5.6 million harbour improvement contract for the National Harbour Board.

In September 1977, the Pitts Merritt, the company's eight cubic yard dipper dredge, was lost in a severe storm off the western coast of Newfoundland. Although built in 1957, the vessel was in excellent condition and still had many years of service ahead. The loss was insured and a new dredge is now under construction to meet the expected increase in demand for large size marine construction projects. Capital expenditures for new marine equipment, including a replacement dredge, will exceed \$5 million. Part of this expenditure occurred in 1977 and the remainder will be spent by mid 1978.

In November 1977, Rockcliffe Gardens, a joint venture housing project at Waterdown, Ontario, in which Pitts has a 50% interest, started work on the first stage of development. The 150 lots in this phase of development have been pre-sold to Victoria Woods Development Corporation of Toronto who will build the houses. Model homes should be available for inspection in May 1978, with occupancy of the first units scheduled for early summer. Cliffside Pipe-layers Limited of Toronto, a wholly-owned subsidiary of Pitts, was awarded the \$1.2 million contract for site development including roads, sewers and underground utilities.

Pipeline Construction

To enable Pitts to participate in future pipeline construction in Canada's north-west, the company, in April 1977, purchased for cash a 50.2% interest in H. C. Price Canada Ltd., a Calgary-based pipeline construction company established in 1956. The balance of the equity is held by the H. C. Price Company of Bartlesville, Oklahoma.

Renamed Pitts Price Pipelines Ltd., this corporate joint venture combines Pitts' civil engineering expertise with the world-wide pipeline experience of H. C. Price, both essential for the building of any major pipeline in Canada.

Pitts' two pipeline construction and underground utility subsidiaries, Cliffside Pipelayers of Toronto and McDace Limited of London, Ontario had an excellent year and collectively achieved a 15% increase in revenue.

During the year Cliffside expanded its north-east Toronto facilities to accommodate and centralize all administrative offices. Operations will continue to be carried out from three yards located in west Toronto, north-east Toronto and Barrie, Ontario.

Standard Industries

The financial performance of Standard Industries, one of Canada's largest building material suppliers, in which Pitts has a 33.3% equity interest, has been most gratifying considering the continued sluggish demand for new housing. Revenues for the 12 months ended December 31, 1977 increased 7.8% to \$91.6 million compared to \$85 million for 1976. Earnings per share before extraordinary item were \$1.68 against \$1.58 per share for the same period of 1976. Much of this increase in sales and earnings has come from new, but related product lines developed or acquired during the last three years. In December 1977, Standard made its first entry into the U.S. market with the acquisition of Sullivan Highway Products Inc., a New York State based supplier of building materials with annual sales of \$5 million. Standard's performance in a highly competitive market is a reflection of the company's capable management and its prudent long term policies.

Dividend income received by Pitts from Standard Industries in 1977 totalled \$678,365 compared to \$622,587 for the previous year. Pitts currently holds 1,049,426 shares of Standard out of a total of 3,147,888 shares outstanding.

Dividends

In the year under review, Pitts paid dividends totalling 32¢ on Class "C" shares and 29.6¢ on Class "B" shares. In November 1977, the directors announced an increase in the indicated annual dividend from 32¢ to 34¢ commencing with the first quarter of 1978. This is the sixth increase in the annual dividend since Pitts became a public company in 1968. Total dividend payout during 1977 amounted to \$1.3 million.

During the year, 553,000 common shares of the company were traded through the facilities of the Toronto and Montreal stock exchanges. The number of company shareholders grew to a record of 1,189.

The Year Ahead

The Canadian economy is about to enter the wage-price decontrol adjustment period and the effect on the construction industry is difficult to predict. Nevertheless, the industry's performance towards the end of 1978 should show signs of emergence from its 1976-77 slump, with the energy sector leading the way.

As an engineering construction company, Pitts is tied into the overall Canadian economy and the country's capital

spending programs. Indications are that public sector spending as a whole will be at least as large as in 1977 and expenditures for energy related projects will be higher. Economic forecasts predict 1978 construction spending in Canada of approximately \$37 billion. Of this 40% represents civil engineering construction from which the company obtains its business volume.

Pitts' principal source of new work for 1978 and beyond will be the energy sector, both public and private. Significant tender calls are anticipated from provincial energy groups such as British Columbia Hydro, Ontario Hydro, James Bay Energy Corporation and Newfoundland Power Commission, all located in areas where Pitts is now working. It should be noted that the bulk of the company's work in 1977 was energy oriented and it is expected that this trend will continue for some time.

In the current year the company intends to enter the international engineering construction market by tendering on a selective basis for major projects in areas where Canadian participation is viewed favourably. Foreign work will be undertaken through joint ventures with partners familiar with local conditions.

Pitts is well diversified in its construction skills, owns a large pool of modern equipment and operates in all of the major Canadian engineering construction markets. The business backlog for 1978 compares favourably with previous years and the company looks with guarded confidence to the years ahead.

Personnel

During the year, W. A. Barrie, a long-time member of the company's management team, was appointed executive vice-president and general manager. Denis Flynn, the company's director of labour and personnel relations was appointed assistant vice-president.

At Cliffside Pipelayers Limited, E. R. Austin, formerly executive vice-president, was appointed president and W. C. Cole, a senior vice-president of Pitts, was appointed chairman. In December 1977, J. W. McCarthy joined Pitts Price Pipelines Ltd. as president, succeeding Travis Smith who returned to H. C. Price Co. of Bartlesville, Oklahoma.

Acknowledgements

To all the employees of the Pitts group of companies whose dedication and skills have contributed to Pitts' continuing success, the directors express sincere appreciation and gratitude.

On behalf of the Board,



S. C. Cooper, P.Eng.,
President and Chief
Executive Officer

February 16, 1978

PIPELINE OPERATIONS



CHATHAM, ONTARIO—Crews installing gas main for Union Gas Limited.



BURLINGTON, ONTARIO—Laying 20" gas line for TransCanada PipeLines Limited.



SARNIA, ONTARIO—Constructing Dawn Compressor Station near Sarnia for Union Gas Limited.



GUELPH, ONTARIO—Augering and jacking a 30" steel pipe casing under a railway embankment to carry a 20" watermain.



Pitts Price Pipelines Ltd., a Canadian corporate joint venture of which Pitts owns 50.2%, was formed to link Pitts' civil engineering construction expertise with the world-wide pipeline experience of H. C. Price Company, thus combining the essential skills necessary for far-northern pipeline construction. Pitts Price headquartered in Calgary, Alta. with yard facilities in Edmonton, Alta., has competent management, financial strength and a large pool of equipment thus enabling it to undertake any major pipeline project, including the proposed northwest Canadian pipeline.

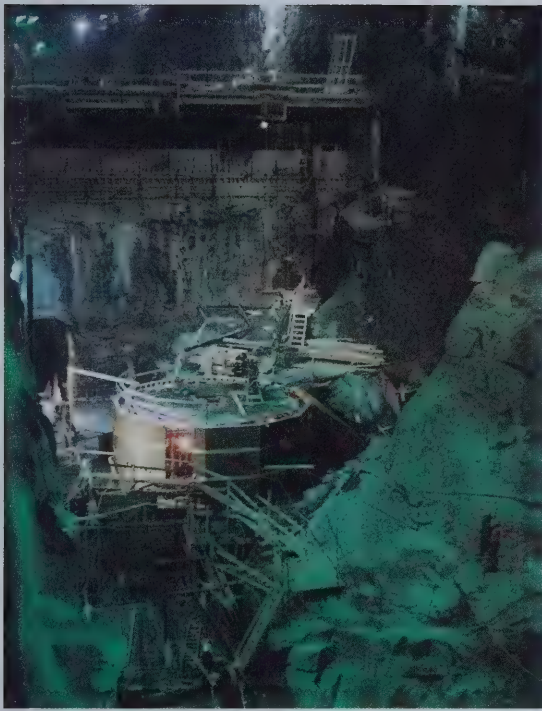




DOUGLAS POINT, ONT.—Ontario Hydro nuclear site

PITTS' 1977 ENERGY RELATED WORK SITES





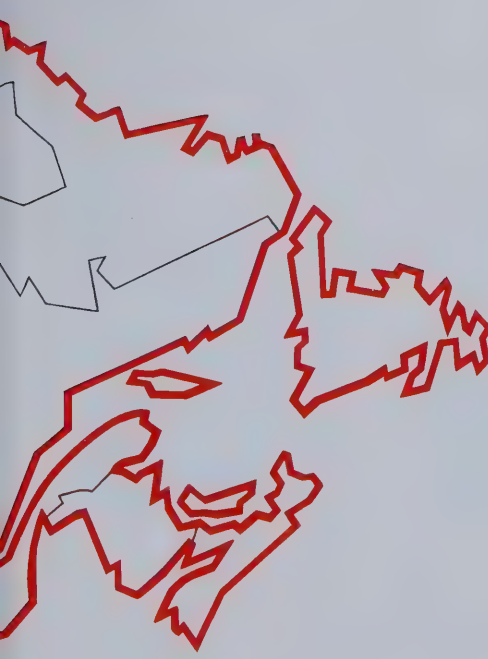
JAMES BAY, QUE.—Underground powerhouse
James Bay Energy Corporation



LONG SPRUCE, MAN.—Hydro-electric project
Manitoba Hydro



NORTH BAY, ONT.—30" gas line
TransCanada PipeLines Limited



LOCATION		DESCRIPTION
1.	Revelstoke	B.C. diversion tunnel
2.	Bay Tree	Alta. 8" pipeline
3.	Edmonton	Alta. 24" road boring—pipeline
4.	Fort McMurray	Alta. 22" pipeline
5.	Jenpeg	Man. Jenpeg Generating Station
6.	Long Spruce	Man. Long Spruce Generating Station
7.	Sundance	Man. Limestone Generating Station
8.	Douglas Point	Ont. Bruce Generating Station
9.	Windsor	Ont. gas transmission line
	Dawn	Ont. compressor station
10.	South Western Ontario	
	Hamilton	gas distribution system
	Burlington	16" pipeline
	Sheridan	compressor station
	Nanticoke	coal handling facility
11.	Metropolitan Toronto	Ont. gas distribution system
12.	North Bay	Ont. 30" pipeline
13.	Wesleyville	Ont. Wesleyville Generating Station
14.	Lake of Two Mountains	Que. pipeline lake crossing
15.	James Bay	Que. intake structure and penstocks
16.	Baie Comeau	Que. diversion tunnel

JOYCEVILLE, ONTARIO
Re-construction of Brewers Lock on
the Rideau Canal system north of
Kingston.



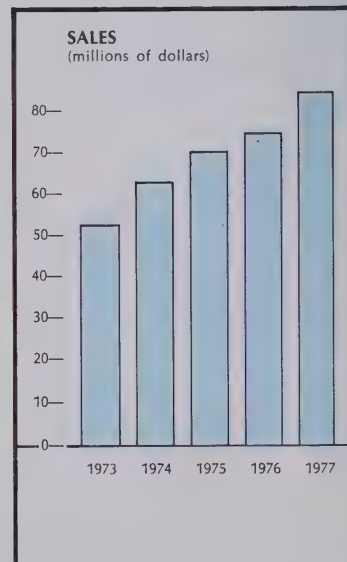
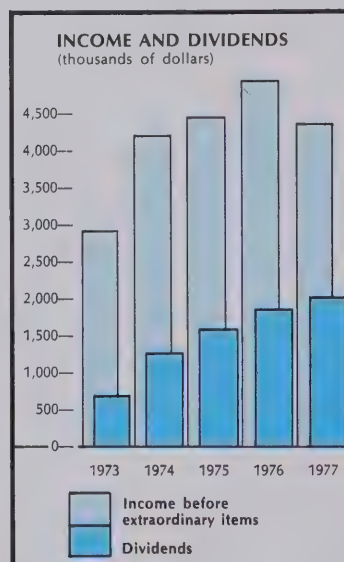
Standard Industries Limited (33.3% owned)

Standard Industries Limited is one of the largest companies in Canada producing and marketing basic materials indispensable to all kinds of construction. These include sand, gravel and crushed stone, slag cement, asphalt mixes, ready mix concrete, concrete pipe and block, other precast concrete products, such as prestressed concrete pressure pipe and bagged dry mix concrete. Standard is also a street paving and road building contractor.

Its market primarily covers the heavily-populated areas of southern and eastern Ontario, North Bay, Ontario and the province of Nova Scotia.

In December 1977 Standard announced that it had purchased Sullivan Highway Products Inc. of Monticello, New York. This company operates from eight locations in New York State providing sand, gravel, crushed stone, asphalt, and highways and street construction. Operations thus are similar to Standard's Canadian activities.

Standard is publicly owned by 1,030 shareholders, including Canada Cement Lafarge Ltd. (49%) and Pitts Engineering Construction (33%).





Pitts Engineering Construction Limited

and subsidiaries

Statement of Consolidated Earnings

		YEAR ENDED DECEMBER 31	
		1977	1976
Contract revenue		\$95,828,939	\$88,373,316
Contract costs		82,465,427	76,732,743
		13,363,512	11,640,573
Equity earnings of associate company—Note 1		1,712,806	1,502,135
Interest earnings		82,490	338,072
Expenses:			
Depreciation of buildings and equipment		3,224,677	2,701,629
Administrative		4,481,103	3,481,722
Interest on long term debt		251,239	424,495
		7,957,019	6,607,846
	EARNINGS BEFORE THE FOLLOWING	7,201,789	6,872,934
Income taxes—Note 1			
Current		2,455,419	2,122,756
Deferred		259,383	393,311
		2,714,802	2,516,067
	EARNINGS BEFORE EXTRAORDINARY ITEMS	4,486,987	4,356,867
	Per share	1.09	1.06
Extraordinary items—net of income taxes \$189,000—Note 3		1,303,274	
	Per share	.32	
	NET EARNINGS	\$ 5,790,261	\$ 4,356,867
	Per share	1.41	1.06

1976 contract revenue and costs have been restated for comparative purposes.



Pitts Engineering Construction Limited

and subsidiaries

Consolidated Balance Sheet

Assets

	DECEMBER 31	
	1977	1976
CURRENT ASSETS		
Cash and term deposits	\$ 2,847,914	\$ 5,328,245
Marketable securities (Market \$279,958)	194,403	11,134
Accounts receivable	16,761,979	14,720,233
Advances to officers and employees	101,960	79,005
Investment in joint ventures—Note 1	7,302,386	4,358,537
Unbilled contract costs—Note 1	4,129,719	3,160,993
TOTAL CURRENT ASSETS	31,338,361	27,658,147
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, marine and construction equipment—at cost—Notes 1 and 4	35,724,116	29,431,953
Less allowances for depreciation	20,503,559	17,027,521
	15,220,557	12,404,432
OTHER ASSETS		
Investment in associate company—Note 1	12,983,841	11,601,047
Long term mortgages receivable		5,474
	12,983,841	11,606,521
	\$59,542,759	\$51,669,100

Approved on behalf of the Board

Director

Director

Liabilities

		DECEMBER 31	
		1977	1976
CURRENT LIABILITIES			
Bank loans			\$ 295,750
Accounts payable		\$ 9,781,541	6,992,942
Deferred contract revenue—Note 1		2,403,169	703,171
Income taxes—Note 1—current		3,290,045	1,344,876
—deferred from contracts		6,081,122	7,544,338
Current portion of long term debt—Note 5		1,432,554	700,000
	TOTAL CURRENT LIABILITIES	22,988,431	17,581,077
LONG TERM DEBT—less current portion—Note 5		1,717,665	2,140,000
DEFERRED INCOME TAXES—Note 1		3,995,112	3,735,729
SHAREHOLDERS' EQUITY			
SHARE CAPITAL—Notes 6 and 7			
Class B shares—outstanding 1,930,249		35,660	892,246
Class C shares—outstanding 2,174,951		40,180	1,030,934
	4,105,200	75,840	1,923,180
RETAINED EARNINGS		30,765,711	26,289,114
	TOTAL SHAREHOLDERS' EQUITY	30,841,551	28,212,294
		\$59,542,759	\$51,669,100

Auditors' Report

To the Shareholders Pitts Engineering Construction Limited

We have examined the consolidated balance sheet of Pitts Engineering Construction Limited as at December 31, 1977, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Our opinion expressed herein insofar as it relates to the amount of earnings derived from the associate company is based solely on the report of the other auditors.

In our opinion, based on our examination and the report of other auditors, and subject to the effect, if any, of the matters described in Note 10, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 16, 1978

Ernst & Ernst.
Chartered Accountants



Pitts Engineering Construction Limited

and subsidiaries

Statement of Consolidated Retained Earnings

	YEAR ENDED DECEMBER 31	
	1977	1976
Retained earnings at beginning of the year	\$26,289,114	\$23,163,312
Net earnings for the year	5,790,261	4,356,867
	32,079,375	27,520,179
Deductions:		
Dividends paid:		
Class B shares (including taxes)	624,668	579,984
Class C shares	688,996	651,081
RETAINED EARNINGS AT END OF THE YEAR	1,313,664	1,231,065
	\$30,765,711	\$26,289,114

Statement of Changes in Consolidated Financial Position

	YEAR ENDED DECEMBER 31	
	1977	1976
SOURCE OF FUNDS		
Net earnings for the year	\$ 5,790,261	\$ 4,356,867
Provision for depreciation	3,224,677	2,701,629
	9,014,938	7,058,496
Sale of property, plant and equipment	664,310	489,150
Decrease in mortgages receivable	5,474	308,146
Increase in deferred income taxes	259,383	393,311
Increase (decrease) in working capital	1,727,139	(990,429)
	\$11,671,244	\$ 7,258,674
APPLICATION OF FUNDS		
Cash dividends	\$ 1,313,664	\$ 1,231,065
Purchase of property, plant and equipment	6,705,111	3,528,094
Investment in associate company	1,382,794	1,346,245
Decrease in long term debt	422,335	1,180,000
Decrease (increase) in share capital	1,847,340	(26,730)
	\$11,671,244	\$ 7,258,674

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Investment in Joint Ventures

This is the amount of capital advances net of drawings adjusted by the companies' share of project revenues less costs to date.

Basis of Accounting for Earnings

Earnings from contracts are recorded on the basis of percentage complete. Under this method the percentage of the estimated final earnings are calculated in relation to the progress of the project. All losses are recorded when known and claims are included as earnings only when approved by owner.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for repairs and maintenance are charged to operations as incurred.

Depreciation is provided on the straight-line method over the useful lives of assets which are estimated to be:

Buildings	20 years
Construction equipment	6-8 years
Licensed equipment	4 years
Office equipment	10 years
Marine equipment	15 years

Prior to 1975, two subsidiaries, Cliffside Pipelayers and McDace Limited provided depreciation on the declining balance method and this method will continue to be used until those assets are fully depreciated.

Investment in Associate Company

This investment is carried at cost plus excess of earnings over dividends received from September 1, 1970. Earnings pertaining to this investment are accounted for on an equity basis. See Note 2(b).

Income Taxes

Corporation taxes have been provided on the earnings shown in the financial statements. Taxable earnings are determined on a different basis and give rise to both income tax deferred from contracts and deferred income tax. The former represents timing differences between statement and taxable earnings, whereas the latter arises from capital cost allowance claimed for tax purposes in amounts differing from depreciation provided for accounting purposes.

Note 2 Principles of Consolidation

(a) The following wholly-owned subsidiary companies have been consolidated:

C. A. Pitts General Contractor Limited
Pitts Quebec Limited
Pitts Engineering Construction Eastern Limited
Drake Construction Company Limited
Cliffside Pipelayers Limited
McDace Limited
Huron Pipelines Limited
Underwater Tel-Eye Limited
Underwater Tel-Eye (Canada) Limited
Pitts Atlantic Construction Limited
Pitts Pacific Construction Limited

(b) Associate Company: the company through a subsidiary holds 33.3% of the equity shares of Standard Industries Limited. The after tax carrying cost of the term loans and company funds invested was \$351,809 (1976, \$434,583). Therefore, the net contribution to the company of these equity shares amounted to 33¢ per share (1976, 26¢ per share).

(c) Corporate Joint Venture: 50.2% of the capital stock of Pitts Price Pipelines Ltd. was acquired as of January 1, 1977. Pitts pro rata share of each of the assets, liabilities, revenues and expenses of the joint venture is included in these financial statements.

Note 3 Extraordinary Items—Net of Tax

	December 31	
	1977	1976
From Associate Company	\$ 220,274	
Insurance proceeds re marine construction equipment loss	1,083,000	
	<u>\$ 1,303,274</u>	

Note 4 Property, Plant and Equipment

	December 31	
	1977	1976
Land	\$ 590,267	\$ 543,400
Buildings	1,758,103	1,623,516
Marine and construction equipment	33,375,746	27,265,037
	<u>\$35,724,116</u>	<u>\$29,431,953</u>

Amounts stated for equipment do not include the companies' share of equipment owned by joint ventures.

Note 5 Long Term Debt**(a) Bank Term Loan**

Interest at 1% above Canadian prime bank rate for purchase of Standard Industries Limited shares

Due March 1978	\$ 480,000
Due September 1978	700,000
Due March 1979	480,000
Due March 1980	480,000
	<u>\$2,140,000</u>
Less current maturities	<u>1,180,000</u>
	<u>\$ 960,000</u>

(b) Notes payable to H. C. Price Company at 6% interest for purchase of Pitts Price Pipelines Ltd. shares.

Due April 14, 1978	\$ 252,555
Due April 14, 1979	378,832
Due April 14, 1980	378,832
	<u>\$1,010,219</u>
Less current maturities	<u>252,554</u>
	<u>\$ 757,665</u>

Note 6 Share Capital

	December 31	
	1977	1976
Class A—\$50 Par Value Redeemable Preference Authorized	300,000	300,000
Class B—No Par Value Convertible share for share into Class C Authorized	1,930,349	1,904,680
Outstanding	1,930,249	1,904,580
Class C—No Par Value Convertible share for share into Class B Authorized	7,069,751	7,095,420
Outstanding	2,174,951	2,200,620
Common—No Par Value Authorized	100	100

The Class B and Class C shares rank equally in all respects except that Class B shares bear dividends on a tax-paid basis and Class C shares bear dividends in the normal manner.

On June 22, 1977 the company decreased its authorized capital by a payment to shareholders of \$1,847,340 at the rate of 45¢ per share.

Note 7 Employee Stock Options on Class C Shares

	December 31	
	1977	1976
Options Outstanding	47,600	54,700
Options Granted	48,500	
	<u>96,100</u>	<u>54,700</u>
Options Cancelled	14,100	500
Options Exercised		<u>6,600</u>
	<u>82,000</u>	<u>47,600</u>
The proceeds of options exercised increased share capital by		<u>\$26,730</u>

Note 8 Remuneration of Directors and Senior Officers

	December 31	
	1977	1976
Total remuneration of directors and senior officers	<u>\$560,656</u>	<u>\$528,842</u>

Note 9 Pension

Based on the most recent actuarial reports, unfunded past service liabilities amount to \$441,906 at December 31, 1977. This amount is being expensed and funded over the next twelve years.

The total charge against operations in 1977 with respect to past service liabilities amounted to \$35,080 including interest.

Note 10 Contingent Liabilities

The company and a co-joint venturer are contingently liable as guarantors for a joint venture bank loan up to \$4 million.

In March, 1975, Pitts Engineering Construction Limited and two of its officers together with eleven other companies and twelve individuals were charged with conspiring to defraud the Government of Canada and the Government of the Province of Ontario in connection with certain dredging contracts. The preliminary hearing was completed in December 1976 at which time the company and its two officers were committed for trial. Counsel for the company have advised that it is not possible at this time to assess the company's defences to the charges but have indicated that in the event of a conviction on one or more of the charges any resulting fine should not seriously impair the company's operations or financial stability.

In addition, the company has been named as a co-defendant in a counter claim issued by Her Majesty in Right of Canada to recover damages and costs with regard to one of the charges referred to above. It is the belief of counsel for the company that this civil action will not be proceeded with until the aforementioned charges have been dealt with. Counsel for the company have advised that it is not possible at this time to assess the company's defences to these claims. However, they have also advised that if there is liability it is not possible at this time to estimate the amount thereof.

Note 11 Anti-Inflation Act

The company is subject to legal enforcement of the Act, consequently there are restrictions on the payment of dividends for the year ended October 13, 1978.

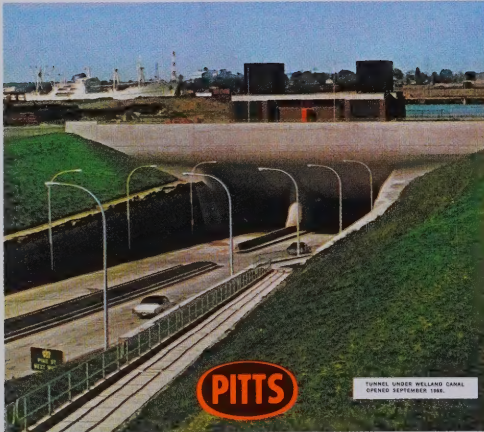


The Kay Cole, completes her maiden voyage for Pitts, a 2,500 mile tow from Pictou, Nova Scotia to the site of her work assignment at Churchill, Manitoba.



The newest and largest vessel of the Pitts marine fleet, the Kay Cole, is classed as a home trade ocean-going tug of 244 gross tons. She is 98 ft. long, with a 28 ft. beam and is powered by a 1,325 horsepower diesel engine.

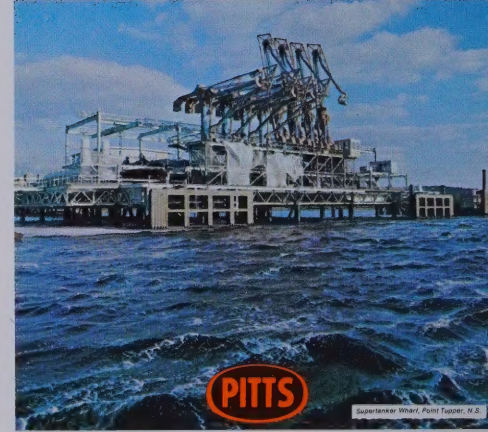
Annual Report Covers



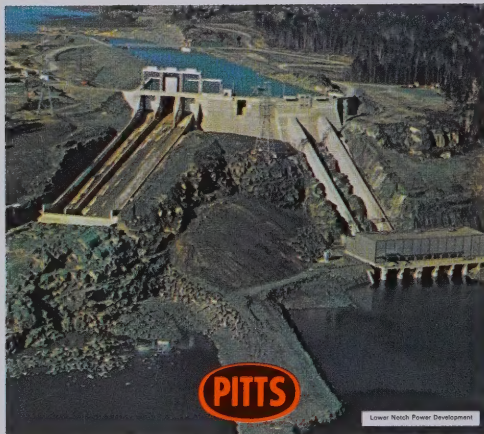
1968



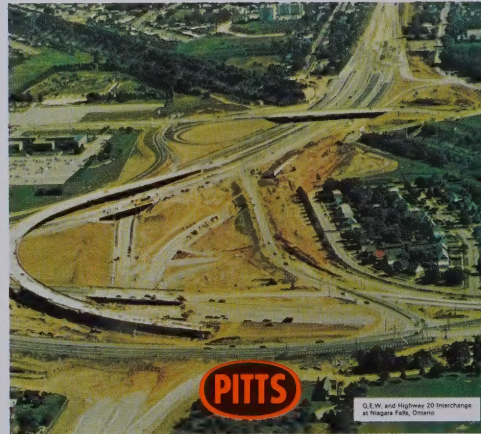
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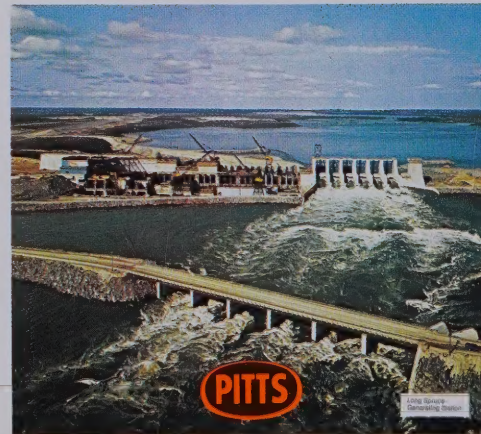
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